

**SUBSIDY SECURITY AGREEMENT AND
INSTRUCTIONS TO ESCROW DEPOSITORY — Reg. 2792.10**

RE 643E (Rev. 5/98)

ASSOCIATION

NAME OF OWNERS ASSOCIATION

ADDRESS, CITY, STATE, ZIP CODE

SUBDIVIDER

NAME OF SUBDIVIDER

ADDRESS, CITY, STATE, ZIP CODE

SUBDIVISION

NAME OF SUBDIVISION

COUNTY

TYPE OF SUBDIVISION

DRE FILE NUMBER

ESCROW HOLDER

NAME OF ESCROW-HOLDER

ADDRESS, CITY, STATE, ZIP CODE

ESCROW ACCOUNT NUMBER

PART ONE — SUBSIDY SECURITY AGREEMENT

1. This Subsidy Security Agreement ("Agreement") is made this _____ day of _____, _____, by and between the Subdivider and the Association identified above.

2. **Recitals.**

A. **Property to Which Agreement Applies.** Subdivider is the owner of certain real property described as:

Records of _____ County, California (herein "the Subdivision").

B. **Public Report.** Subdivider has applied for a California Department of Real Estate Public Report ("Public Report") covering the Subdivision. Prior to obtaining the Public Report, the Subdivider is required pursuant to the provisions of Section 2792.10 of Chapter 6, Title 10, California Code of Regulations to make and retain in full force and effect arrangements to secure the prompt and faithful performance of Subdivider's obligation to Association under Part One Paragraph 3 of this Agreement.

3. **Secured Obligation.** On _____, _____, the Subdivider and Association have entered into a written Subsidy Agreement, copy of which is attached to this Agreement as an Exhibit, wherein Subdivider has undertaken to provide goods and/or services to the Association or to pay a portion of one or more purchaser's share of the Association's financial obligations. Subdivider shall promptly and faithfully perform Subdivider's obligation to the Association under the Subsidy Agreement.

4. **Security.** To secure the performance of the obligation described in Part One, Paragraph 3, above, the Subdivider has procured the issuance of the:

☐ surety bond in the sum of _____ Dollars (\$ _____), to the Association, as obligee,

☐ letter of credit in the sum of _____ Dollars (\$ _____),
to the Escrow Holder identified above, for the benefit of the Association,

☐ set-aside letter in the sum of _____ Dollars (\$ _____)
to the Escrow Holder, for the benefit of the Association,

a copy of which instrument is attached to this Agreement as an Exhibit, or

☐ cash deposit in the sum of _____ Dollars
(\$ _____) has been deposited with Escrow Holder for the benefit of the Association.

The term "Security" as used in this Agreement refers to the cash deposit, surety bond, letter of credit, or set-aside letter identified above, together with any funds drawn thereunder held by the Escrow Holder.

5. **Set-Aside Letter.** If the Security is a set-aside letter, funds in the sum specified above ("Funds") will be retained in a separate account controlled and administered by the Issuer until full and final performance by Subdivider of Subdivider's obligations under Part One, Paragraph 3 of this Agreement, or until disbursed in accordance with the terms of the set-aside letter. The Subdivider hereby grants the Association a security interest in the Funds to secure the performance of the obligation described in Part One, Paragraph 3, above.
6. **Enforcement and Release of the Security.** If the Subdivider fails to perform the Subdivider's obligation under Part One, Paragraph 3 of this Agreement, the Association shall have the right, whether through enforcement of the Security, demand upon funds drawn thereunder held by the Escrow Holder, or otherwise, to receive such sums as may be required to satisfy the obligation of the Subdivider under Part One, Paragraph 3 of this Agreement, and the Subdivider shall, without regard to any other disputes or negotiations then existing, immediately take any and all actions and execute any and all documents as may be required to cause such sums to be paid to the Association. Any amount received by the Association directly from the Subdivider or from proceeds of the Security shall be credited against any claim by the Association arising out of the Subdivider's failure to perform the Subdivider's obligations under this Agreement. Upon full and final performance by Subdivider of Subdivider's obligations under this Agreement, the Association shall, without regard to any other disputes or negotiations then existing, immediately take any and all actions and execute any and all documents reasonably necessary to cause the Security to be released and exonerated.
7. **Provisions for Arbitration of Conflicts.** In the event there is a dispute between the Subdivider and the Association with respect to this Agreement, or the enforcement, exoneration, or release of the Security, the issue or issues shall, at the request of either Subdivider or Association, be submitted to arbitration, in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA") before an arbitrator selected from the panels of the arbitrators of said AAA. In the event of referral to arbitration, Subdivider will remit the fee to initiate the arbitration. The parties agree, however, that the costs of arbitration shall ultimately be borne as determined by the arbitrator. The parties further agree to abide by the determination of the arbitrator with respect to the enforcement, exoneration or release of the Security and with respect to payment of the costs of arbitration.
8. **Attorney's Fees.** In any action or proceeding arising out this Agreement, the prevailing party or parties shall be entitled to reasonable attorney's fees.
9. **Obligations of Parties; Assignment.** This Agreement and the rights and obligations of each of the parties are personal to such parties and may not be transferred or assigned without the prior written consent of the other, except that Subdivider may assign its rights under this Agreement to a successor in interest as part of a transfer of the Subdivision in its entirety. Subdivider may also assign its rights under this Agreement to the Issuer of the Security. Such assignment does not make the assignee liable for any of Subdivider's obligations pursuant to this Agreement, unless such obligations have been specifically assumed by the assignee in writing. Any assignment in violation of this Section shall be void.
10. **Binding Upon Successors.** This Agreement and the rights and duties of the parties shall be binding upon and shall inure to the benefit of the successors in interest, and assigns of the respective parties.
11. **Laws of California.** This Agreement shall be construed and governed by the laws of the State of California.
12. **Delivery of Agreement.** Subdivider shall furnish the Association with an executed copy of this Agreement and the Instructions to Escrow Depository along with evidence of the Security deposited with Escrow no later than ten (10) days after the closing of the first sale of a separate interest in the Subdivision owned by the Subdivider.

13. **Complete Agreement.** This Agreement contains the entire agreement between the parties with respect to the subject matter covered in this Agreement.

PART TWO — INSTRUCTIONS TO ESCROW DEPOSITORY

This constitutes joint escrow instructions of the Subdivider and the Association, which instructions are irrevocable except as modified by written supplemental instructions executed by the Subdivider and the Association. The Subdivider and the Association are the only principals in this escrow.

Escrow Holder hereby acknowledges receipt of the cash deposit, surety bond, letter of credit, or set-aside letter described in Part One, Paragraph 4 of the foregoing Subsidy Security Agreement. Unless otherwise specifically stated herein, the capitalized terms in these instructions shall have the same meaning as set forth in the foregoing Agreement.

Nothing contained in these instructions imposes any duty on the Escrow Holder to interpret Section 2792.10 of Chapter 6, Title 10, California Code of Regulations, to audit in any way the Subdivider's discharge of its duties or obligations thereunder, or to verify the truth of the statements made in any notices given to the Escrow Holder by the Subdivider or the Association. Except as otherwise provided by law, the duties of the Escrow Holder are to receive, hold, release, or draw upon the Security in accordance with the following instructions. These instructions may be modified by the written joint or mutual instructions of the principals. Escrow Holder hereby agrees to comply with the terms and provisions of these instructions.

1. Return Of The Security To The Subdivider.

- A. If the Escrow Holder receives a written demand from the Subdivider for the return of the Security, which demand is accompanied by the Subdivider's statement that the Subdivider has fully and finally performed all Subdivider's obligations to the Association under the foregoing Subsidy Security Agreement, then, within fifteen (15) calendar days of receipt of the demand and statement, the Escrow Holder shall deliver a copy of the demand and statement to the Association, or its authorized agents, together with a notice to the Association that the Association's written objection to return of the Security to the Subdivider must be received by the Escrow Holder within forty (40) days after delivery of the demand and statement to the Association.
- B. If within forty (40) calendar days after such delivery, the Association delivers to the Escrow Holder the Association's written objection to the return of the Security to the Subdivider, then the Escrow Holder shall continue to hold, release, or draw upon the Security in accordance with these instructions. If within forty (40) calendar days after the Escrow Holder delivers the demand and statement to the Association, or its authorized agents, the Association does not deliver to the Escrow Holder the Association's written objection to the return of the Security to the Subdivider, then the Escrow Holder shall promptly deliver the Security to the Subdivider.

2. Remittance Of The Security To The Association.

- A. If the Escrow Holder receives a demand from the Association for the remittance of the Security, or some specified portion thereof, which demand is accompanied by a written statement signed by an officer of the Association that the Subdivider has failed to perform the Subdivider's obligations under the foregoing Subsidy Security Agreement, then, within fifteen (15) calendar days of receipt of the demand and statement, the Escrow Holder shall deliver a copy of the demand and statement to the Subdivider, together with a statement notifying the Subdivider that the Subdivider's written objection to remittance of the Security to the Association must be received by the Escrow Holder within forty (40) days after delivery of the demand and statement to the Subdivider.
- B. If within forty (40) calendar days after such delivery, the Subdivider delivers to the Escrow Holder the Subdivider's written objection to the remittance of the Security to the Association, then the Escrow Holder shall continue to hold, release, or draw upon the Security in accordance with these instructions. If within forty (40) calendar days after the Escrow Holder delivers the demand and statement to the Subdivider, the Subdivider does not deliver to the Escrow Holder the Subdivider's written objection to the remittance of the Security to the Association, then:
 - 1) If the Security is a surety bond, the Escrow Holder shall promptly deliver the Security to the Association;
 - 2) If the Security is a letter of credit, the Escrow Holder shall promptly present the Security for payment of that portion of the Security specified in Association's demand by presenting the Security and a sight draft drawn under and in compliance with the letter of credit to the issuer of the letter of credit, and upon receipt of payment promptly remit to the Association that portion of the Security specified in the Association's demand;

- 3) If the Security is a set-aside letter, the Escrow Holder shall promptly make demand in compliance with the set-aside letter to the issuer of the set-aside letter for payment of that portion of the Security specified in the Association's demand, and upon receipt of payment promptly remit to the Association that portion of the Security specified in the Association's demand;
- 4) If the Security is or has become a cash deposit, the Escrow Holder shall promptly remit to the Association that portion of the Security specified in the Association's demand.

3. Release Of The Security Upon Joint Instructions.

If the Escrow Holder receives written instructions from both the Subdivider and the Association directing the Escrow Holder to return the Security to the Subdivider or to remit the Security, its proceeds or some portion of the proceeds to the Association, the Escrow Holder shall promptly comply with the instructions.

4. Conflicting Instructions.

In any of the circumstances described in subparagraphs A through E, below, the Escrow Holder shall, at its sole discretion, either (1) interplead the Security, (2) retain the Security until the Security is returned to the Subdivider or remitted to the Association in accordance with these instructions, or (3) retain the Security until the Security is disposed of in accordance with written supplemental instructions executed by the Subdivider and the Association, the order of a court of competent jurisdiction, or in accordance with the final binding decision rendered in an alternative dispute resolution proceeding:

- A. The Association timely objects in writing to a demand by the Subdivider for the return of the Security;
- B. The Subdivider's demand for the return of the Security is not accompanied by the statement described in Part Two, Paragraph 1-A, above;
- C. The Subdivider timely objects in writing to a demand by the Association for remittance of all or any portion of the Security;
- D. The Association's demand for remittance of the Security is not accompanied by the statement described in Part Two, Paragraph 2-A, above; or
- E. The Escrow Holder receives conflicting instructions from the parties to this escrow.

5. Pending Return Or Remittance Of The Security.

- A. If the Security is a letter of credit, and if the issuer of the letter of credit has not extended the time for drawing upon the letter of credit by extending or reissuing the letter of credit and depositing the extension or reissued letter of credit with the Escrow Holder, then fifteen (15) calendar days prior to the expiration of the time for drawing upon the letter of credit, the Escrow Holder shall present the Security for payment in full by presenting the Security and a sight draft drawn under and in compliance with the letter of credit to the issuer of the letter of credit, and upon receipt of payment handle the proceeds of the Security as a cash deposit. The Escrow Holder shall notify the Association and the Subdivider upon receipt of proceeds of a draw on the letter of credit.
- B. If the Security is or has become a cash deposit, the Escrow Holder is hereby instructed to deposit all funds deposited in the above - numbered escrow in a federally insured interest-bearing account or accounts, in the name of the Escrow Holder for the benefit of the Association. The parties hereto agree and understand that said funds are under the control of Escrow Holder and that no withdrawals or additions may be made by anyone other than Escrow Holder. The interest earned on said account, if any, is for the benefit of the Subdivider only, and the Escrow Holder shall cause said interest to be paid to the Subdivider. Taxpayer Identification Number shall be furnished by Subdivider in order for Escrow Holder to open an account for a cash deposit. Escrow shall furnish the parties with account information within five days of opening.
- C. If the Security is a surety bond or set aside letter, the Escrow Holder shall retain the Security until the Security is disposed of in accordance with these instructions or the order of a court of competent jurisdiction.

6. Notices.

Delivery of all notices and other documents described in these Instructions to Escrow Depository or in the foregoing Subsidy Security Agreement shall be made by overnight or same-day commercial delivery service or by United States mail, certified or registered, postage prepaid. All such notices and documents shall be deemed delivered, given and received: (a) the day of sending via same-day commercial delivery service; (b) the following business day after sending via overnight commercial delivery service; or (c) three (3) calendar days after deposit in the United States mail. All such notices shall be addressed as set forth on page 1 of this Subsidy Security Agreement and Instructions to Escrow Depository; provided that the Association, the Subdivider and the Escrow Holder may at any time change their respective address for notices and other documents described herein by sending to the other two parties a written notice specifying the new address.

7. Counterparts.

This Subsidy Security Agreement and Instructions to Escrow Depository may be executed in counterparts, and all counterparts together shall be construed as one document.

Dated: _____

Subdivider

By

Dated: _____

Association

By

Dated: _____

Escrow Holder

By